

February 22, 2002

Michael E. Alpert, Chairman
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

RE: Gaming and Publicly-Traded Corporations

Dear Mr. Alpert:

I represent the California Commerce Club, a large card club (gambling establishment) situated in the City of Commerce. The Commerce Club currently has in excess of 2,500 employees and provides more than \$13 million dollars each year to the City of Commerce as a license fee for the privilege of doing business in the city. In November of 2001, construction was finally completed on a 240 room hotel which adjoins the card club.

Although the Commerce Club is the most successful card club in the State of California, and has shown a profit each year for at least the past seventeen years, financing capital projects is not easy. The Commerce Club and other successful card clubs in California find it difficult to obtain loans at favorable rates. Banks and other financial institutions seem to disfavor loaning money to these lawful businesses. Loans that are available are at high interest rates, and quite often the conditions attached to the loans are much more restrictive than those attached to other businesses similarly situated.

Recently, representatives of the Barona Tribe approached the California Gambling Control Commission and asked that regulations be adopted so that they may issue bonds in order to access the capital markets at more favorable rates. A witness from the Barona Tribe testified that the financing which is available to them is at high rates and the conditions attached to possible loans are often on unfavorable terms. The Barona Tribe, and other California Indian tribes hope to be able to access the bond market in order to obtain funding for their future capital needs. They in fact, are seeking relief from the very same problem as are California's larger card clubs.

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Although there are now approximately a hundred card clubs in the State of California, it is likely that no more than a handful would ever reorganize as a publicly-traded company, or be acquired by a publicly-traded company. Currently there are five or fewer card clubs in the State which have a hundred or more tables. It is believed that most publicly-traded companies would not have an interest in acquiring a smaller or medium sized card club.

Some who are opposed to publicly traded status for California card clubs argue that this will lead to an expansion of gambling. I hasten to point out that this really cannot occur. Currently, Business and Professions Code Section 19950.1 precludes an expansion of the number of card club tables by 25% or more without a vote of the people in the city where the club is located. Additionally, Section 19950.2 indicate that no election relating to expansion may occur until 2007. Thus, there cannot be a wholesale increase in the number of gambling tables in existing card clubs, nor can there be a proliferation of new card clubs. Another section of the Business and Professions Code, Section 19950.3, provides that no new club may be opened until after January 1, 2007. We anticipate that these dates for expansion will likely be extended by future acts of the Legislature.

I would also like to point out that from approximately 1995 to the year 2000, Hollywood Park Operating Company, a publicly traded company, owned and operated a card club on the grounds of the Hollywood Park Race Track. During this period, of approximately five years, there was no evidence of any unlawful activity or criminal element associated with the operation of that company. Arrival of publicly-traded companies to Las Vegas, Nevada, is often cited as a key turning point in resting control from those associated with organized crime.

It is also interesting to note that some representatives of tribal governments have expressed their concern with publicly-traded companies being able to own card clubs in California. However, currently Harrah's casino, Stations casinos, Trump casinos, Lakes Gaming, and other publicly-traded companies which own or operate casinos in Nevada and other states are currently doing business in California, operating casinos on Indian reservations. Las Vegas and Atlantic City are already present in California operating large-scale tribal casinos.

Currently, in existing law there is also a prohibition which precludes an individual from obtaining a gambling license in California if they own an interest in a company which is involved in gaming outside the State of California which would be a violation of Penal Code Section 330, if the activity were conducted in California. This provision, in essence, precludes an owner of a California card club from owning an interest in a casino in Nevada, even if that interest is only one share. This existing prohibition is antiquated and needs to be changed. It is also likely that this provision and the restriction on publicly-traded status are both

arguably violative of the Interstate Commerce Clause.

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We believe that California card clubs should be treated like any other legitimate business in this State, and be allowed to take advantage of the most favorable business climate possible. Like the Indian tribes, we should have access to the public capital markets. We submit that there is no evidence from any place in this country indicating that a casino becoming a publicly-traded company becomes a law enforcement problem. In fact, the experience in Nevada is quite to the contrary.

We, respectfully, request that this Commission recommend to the Governor that the ban on publicly-traded status be lifted, and that California card clubs be allowed to reorganize as publicly- traded companies, or in the alternative become acquired by a publicly-traded company.

Needless to say, should you have any questions, do not hesitate to contact me.

Sincerely,

Rodney J. Blonien

RJB:ks